

Document
of the Anti-Crisis Fund,
EurAsEC
00009

Eurasian Development Bank
Resources Manager of the EurAsEC Anti-Crisis Fund

EVALUATION REPORT

on Application

of the Ministry of Finance of Kyrgyz Republic

for Investment Loan
to be provided by the EurAsEC Anti-Crisis Fund for the project
"Funding of Farming Machinery Supplies to Kyrgyz Republic"

in the amount of US\$ 20 million

November 2013

This is a limited distribution document to be used by its recipients exclusively for the purposes of performing their official duties. The contents of the document can be disclosed only with the permission of the Eurasian Development Bank.

Kyrgyz Republic

Fiscal year: 1 January –31 December

National Currency Exchange Rate

as of 25/11/2013

Currency	KGS
1 RUR	1.4849
1 KZT	0.3198
1 US\$	48.8605
1 EUR	65.9470

Weights and Measures: Metric

Acronyms and Abbreviations

ACF, Fund – Anti-Crisis Fund of the Eurasian Economic Community

Agri – Agriculture

EBRD – European Bank for Reconstruction and Development

EDB, Resources Manager – Eurasian Development Bank

EurAsEC – Eurasian Economic Community

GDP – Gross Domestic Product

GNI – Gross National Income per capita

IBRD – International Bank for Reconstruction and Development

IDB – International Development Banks

IFI – International Financial Institutions

KR – Kyrgyz Republic

Minagri of KR – Ministry of Agriculture and Land Reclamation of Kyrgyz Republic

Minfin of KR – Ministry of Finance of Kyrgyz Republic

NSC of KR – National Statistical Committee of Kyrgyz Republic

Project Company Aiy Bank – OAO "Aiy Bank"

WB – The World Bank

The document has been prepared by the following officers of the
Eurasian Development Bank:

Deputy Chairman of the Board

S. Shatalov

Director of ACF Project Team

A. Cherekaev

Head of the Office in Kyrgyzstan

A. Shirokov

Manager of ACF Project Team

T. Malsagova

TABLE OF CONTENTS

1. BASELINE PARAMETERS OF LOAN RECOMMENDED BY RESOURCES MANAGER.....	4
2. MANAGER'S EVALUATION REPORT ON APPLICATION.....	6
3. RATIONALE OF EVALUATION REPORT.....	9
3.1. General.....	9
3.1.1. Social and Economic Status of Kyrgyz Republic	9
3.1.2. Impact of ACF Loan on Economic Condition of KR.....	11
3.1.3. Agricultural Sector	11
3.1.4. Foreign Trade of KR with ACF Member Countries	16
3.2. Project Description	18
3.2.1. Objectives of Project:.....	18
3.2.2. Project Current Status and Funding Requirements	19
3.2.3. Funding Scheme, Financial Conditions and Implementation Mechanism.....	20
3.3. Project Compliance with ACF Mission	24
3.4. Projected Economic Benefits	26
3.5. Government Support of Project.....	26
3.6. Environmental Impact.....	26
3.7. Project Risk Assessment	27

1. BASELINE PARAMETERS OF LOAN RECOMMENDED BY RESOURCES MANAGER

Form of financing	For Borrower: Investment Loan For Final Borrower (Project Company): Budget loan
Borrower of Fund Loan	Kyrgyz Republic
Final Borrower (Project Company)	Open Joint-Stock Company "Aiyl Bank"
Project Name	"Agricultural machinery supplies to Kyrgyz Republic"
Main Objectives	<ul style="list-style-type: none"> • Increase of investments into agricultural sector of KR for the purpose of upgrading of production facilities; • Improvement of trade balance through increase in exports of farming products; • Reduction of poverty level of rural population; • Promotion of further integration of ACF member states by increased exports of farming products from KR to markets of ACF member countries and supplies of farming machinery to KR from ACF member states.
Key performance indicators	<ul style="list-style-type: none"> • Reduction of cost of agricultural production by 2% through cutting down on overheads of farming machinery maintenance by 10% nationwide; • Increase in quantity of farming machinery units by 8.5% of that available as of 01/01/2013; • Establishment of a farming machinery budget support fund of earnings from project implementation in the amount of US\$ 1.120 million for the period up to 31.12.2016.
Term of Investment Loan	up to 20 years
Authorized use of Loan	Procurement of farming machinery by the Final Borrower for subsequent leasing out, and lending of funds by the Final Borrower to Sub-borrowers for construction and/or development of farming machinery maintenance infrastructure facilities
Amount committed by the Fund	US\$ 20 million
Final Borrower's co-financing	US\$ 5 million
Borrower's co-financing	None
Term of disbursement	Date of Termination of Loan Availability - 31 December 2015
Term of Project	The Project is scheduled for completion no later than the Date of Termination of Loan Availability.
Procedure of loan disbursement to Borrower	<p>The Loan of the Fund is disbursed in accordance with the World Bank Disbursement Guidelines, including:</p> <ul style="list-style-type: none"> • Advance transfer to the Special Account for subsequent disbursement to the Final Borrower for payments under contracts in amounts not exceeding US\$ 500,000 and for sub-lending; • Direct transfer of funds to contract suppliers in amounts not exceeding US\$ 500,000.

Financial conditions for extending Fund Loan to Borrower.	<ul style="list-style-type: none"> • Interest rate: 1% per annum • Risk premium: n/a • Front-end fee: 0.5% of loan amount • Commitment fee: 0.5% per annum of undisbursed Investment Loan amount • Interest Margin: n/a;
ACF Loan repayment schedule	<ul style="list-style-type: none"> • Grace period for principal repayment: up to 8 years • Repayment schedule: see Appendix 1 hereto
Project sector	Agriculture, Infrastructure
Agreement on provision of Investment Loan to Borrower	Draft Agreement prepared by the Manager and submitted to the Fund Council of Experts.

2. MANAGER'S EVALUATION REPORT ON APPLICATION

This Evaluation Report provides assessment of the Preliminary Application of the Ministry of Finance of Kyrgyz Republic (hereinafter - the Application). The principal declared objective pursued in applying for this Loan is to provide financial support to the project "Funding of Farming Machinery Supplies to Kyrgyz Republic"(hereinafter - the Project).

Section 3 of this document contains rationale for evaluation report on the Application by the ACF Resources Manager (hereinafter - the Manager).

Having examined the Application the Manager requests the ACF Council to consider the following recommendations and conclusions:

1. *The Application conforms to the mission of the Fund, its funding objectives, lending policy as defined by the Treaty on the Establishment of the Fund, Statute of the Fund, and the Regulation on ACF Investment Loans.* Meanwhile, the Manager wants to make a point that the conditions tendered by the Borrower, differ from the standard terms for provision of investment loans by the Fund. According to the World Bank classification KR is a low-income country, and this category as provided in the Regulation on the Use of ACF Resources for Providing Investment Loans (see para 12 and Appendix 1) requires application of IFI standards to funding arrangements with such countries. In particular, the IMF Program currently running in KR allows to dispense with risk premium and interest margin; the Manager also recommends to accept the proposed extension of the Investment Loan term and the grace period to 20 and 8 years, respectively, as requested by the Minifin of KR, to ensure steady financial flow into the proposed budget fund and to qualify for the grant-element, as provided by the IMF Program (for more details see page 20 of the Appraisal Rationale, and Appendix 3 hereto).
2. *The Application is executed in full compliance with the requirements of the Fund.* The depth of elaboration of the Application in terms of the required data for assessment purposes and supporting documentation to enable a preliminary review approval is deemed satisfactory.
3. *The Project is consistent with the ACF mission.* The Project will contribute to improvement of sustainability of the Kyrgyz economy (growth of production and exports of farming products), reduction of poverty and further integration of the economies of the ACF member countries through increased mutual investments and trade. To enhance anti-crisis performance of the Project following the review of the preliminary application, the Manager recommended to use the Investment Loan funds for investments into development of farming machinery maintenance infrastructure, and to establish a budget fund to support leasing of farming machinery. The above recommendations were duly taken note of in preparation of the Project. The Manager has developed a matrix of project compliance with ACF mission (Appendix 4 hereto), which shows compliance of the Project (highlighted in green) with 13 criteria in all the categories (anti-crisis, integration, sustainable development).
4. *Kyrgyz Republic has met all the requirements defined by the Treaty on the Establishment of the Fund, the Statute of the Fund and decisions of the ACF Council.* The requirement to make an initial cash contribution and in the form of a bill of exchange has been met in full. Kyrgyzstan was required to make a payment by the bill of exchange in the amount

of US\$ 100,000, it was cashed in due course and there are no outstanding liabilities on the said BE. According to the information available to the Manager, the Kyrgyz Republic has no outstanding debts either to Fund member states, or to IMF and WB; the Manager is in receipt of all the relevant supporting letters. Up till now the Kyrgyz Republic has never been granted ACF loans, and the requested amount is within the country limit established by the ACF Council, for which KR qualifies. The level of debt sustainability of the Kyrgyz Republic enables us to make a positive conclusion about financial solvency of the Borrower.

5. *The ACF Procurement Policy allows application of IFI procurement procedures, as well as those of the Project Company, for purposes of the Project.* As required by procurement transparency policies, and with a view to reducing corruption risks, the Manager recommends to carry out all Project procurement operations financed by the Investment Loan in compliance with the ACF Procurement Policy and the IBRD Procurement Guidelines, insofar as they are not inconsistent with the Fund Procurement Policy. The Manager supports the proposal of KR to apply Aiyl Bank's business practices in performing Project procurement operations under contracts with prices not exceeding US\$ 500,000. Consent to accept the Final Borrower's procedures for the Project will be regarded, inter alia, as a condition for entry into force of the Investment Loan Agreement, whereas any modification of the procedures agreed upon, will be deemed to constitute non-compliance with the terms and conditions of the Agreement and will entail penalties provided thereby. If the procurement price exceeds the above limit, one applicable method of procurement to consider will be international Competitive Bidding. The proposed procurement procedures are consistent with the Fund Procurement Policy, Project objectives, requirements of the regulatory documents of the Fund, contents and complexity of the Project and its components and the total cost of the Project.

The Manager recommends monitoring compliance with the WB Procurement Guidelines by authorizing the Manager to use the Loan for payment of Project monitoring consulting services under a relevant contract with WB in an amount up to US\$ 250,000.

6. *Monitoring and evaluation of the Project will be performed by the Manager in accordance with the Manager's procedures.* The above monitoring procedures will require continuous collection of data on Project implementation progress, Project risk assessment to be carried out by the Manager on an on-going basis and regular field missions of the Manager's staff to the Project sites.

7. The Investment Loan will be disbursed in compliance with the relevant World Bank procedures, including:

- For contracts signed as a result of International Competitive Bidding, the above procedures require disbursement of funds upon receipt of all the necessary approvals and of all the supporting documents by the Manager certifying the proper purpose of the proposed payment (agreements, proforma invoices and other documents), whereupon the Manager will transfer funds on the basis of the Borrower's Disbursement Requests directly to the vendors contracted in compliance with the IBRD procurement procedures;
- For payment under contracts signed in accordance with business practices of the Ultimate Borrower and for sub-lending to fund development of maintenance facilities, the above procedures make provision for advance deposit of funds to the Final Borrower via a special account opened by the Borrower, followed by submitting to the Manager of relevant documents certifying the proper use of the funds.

8. In the course of Project implementation the Environmental and Social Safeguards Policy of EDB will be used.

3. RATIONALE OF APPRAISAL

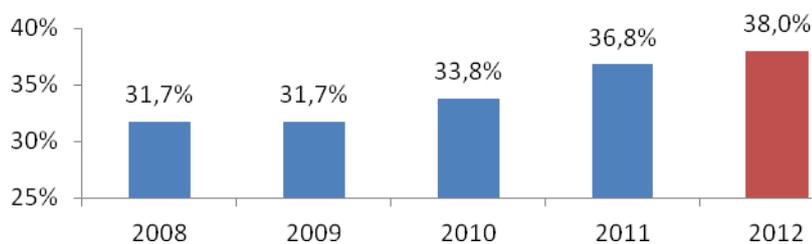
3.1. General

3.1.1. Social and Economic Status of Kyrgyz Republic

Kyrgyz Republic is a low-income country. In 2012 its nominal GDP was equal to about US\$ 6.08 billion. In 2000-2011 the average annual growth rate of the economy was around 4%. In 2009-2012 the rate of growth was close to 2%, but in 2012 the GDP declined by 0.9%. In 2012 a significant reduction of gold mining operations at OJSC “Kumtor” resulted in a deep downturn (over 27%) in the manufacturing industry. Positive development trends observed in other sectors were not sufficient to offset the above drop. Agricultural production is the key sector providing 18% of the national GDP. Other industries, such as manufacturing (with a 40% share of the mining operations of Kumtor), trade and transport account for 17%, 16% and 8%, respectively.

The high poverty level of the population constitutes one of the key social and economic development problems of the Kyrgyz Republic. According to the Ministry of Economics of KR as of 2012 the share of the population living below the poverty line was equal to 38%. Over the last five years a trend to sustainable growth of this indicator has been registered. In 2007 it was 31.7% (see Figure 1). In five years it has risen by 6.3%.

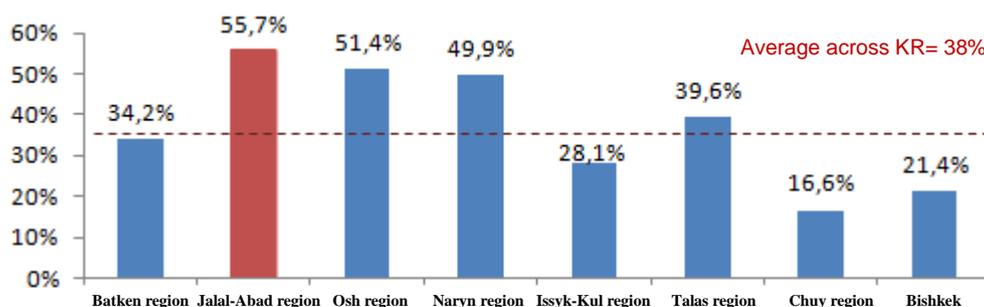
Figure 1. Trends in average poverty levels in KR



Source: Ministry of Economics of KR

In addition to the overall negative trend in the average poverty level there are serious regional imbalances in this indicator. The average poverty level in the least prosperous area (Djalal-Abad region) in 2012 was 55.7%, whereas the same indicator for the most problem-free territory (Chuy region) was equal to 16.6%.

Figure 2. Regional Average Poverty Levels in KR, 2012



Source: Ministry of Economics of KR

There is also a significant gap between urban and rural areas: the average share of urban dwellers living below the poverty line in 2012 was equal to 35.4%, and that of rural population - 39.6%. Over the last five years a trend to closing this gap has emerged, which, however, was actually due to a higher rate of growth of poverty among the urban population.

One of the drivers of poverty in KR is high unemployment. The rate of unemployment in 2012 was 8.4%. It is noteworthy, that a substantial proportion of the active population in KR work in neighboring countries (RF and Kazakhstan), and economic slowdown in these states may have a significant negative impact on employment rates in KR.

The Kyrgyz economy is characterized by a chronic double deficit: deficit of foreign trade balance and that of the national budget; both are financed by external borrowed funds and cash remittances (which account for 30% of the GDP). The national budget deficit in 2000-2012 averaged at around 4.2% of the GDP. Prior to 2009 the national external debt was under control at the level of 33-37% of the GDP. The need borrowed funds, which materialized in the post-2008 crisis period, the sluggish GDP growth and weakening of the national currency exchange rate increased the external debt service burden, and in 2012 the situation was aggravated by a drop in the GDP and, as a consequence, it affected the taxable base. In 2012 the budget deficit was equal to 6.2% GDP, 85% of which was funded from external sources of finance. As a result the external sovereign debt exceeded 46% of the GDP. In the nearest future the national budget deficit is expected to diminish to the level of 3% of the GDP. Yet, according to the IMF, due action taken with a view to consolidating budget expenditures and further steps in reforming the tax administration system may stabilize the budget position of Kyrgyzstan. The GDP recovery in 2013 and positive estimates of economic growth for 2014-2017¹ may contribute to mitigating budget constraints; but funding capacity will largely be limited because of accumulated budget deficit and its external financing.²

2012 saw continued trend toward shrinking positions of KR on the global competitiveness scale (WEF). Since 2006 Kyrgyzstan has slid 17 points down to position 127. Quality of business environment is the only indicator out of the commonly known development indexes, which rates KR in the midrange and not at the bottom amongst the CIS countries, though in recent years KR has been moving down its rating curve according to the World Bank's "Doing Business" Report (68th in 2013). Moreover, quality of public

¹ As estimated by the IMF the growth rate will average around 5,2% per annum.

² To stabilize the external national debt in 2013-2014 net surplus of the budget should be maintained at 5% of the GDP.

institutions is poor, and according to the World Bank³ the level of control of corruption and the current status of rule of law place the country among the 15% of problem nations. Given all the ambiguity of ratings, their low values are indicative of the lack of progress in the last decade. The poor condition of business environment constitutes a serious constraint for the inflow of foreign investments and thus suppresses opportunities for diversification and modernization of the national economy.

Thus, the current economic condition of Kyrgyzstan reveals extremely limited capacity for funding investments into production fixed assets from domestic sources; and the opportunities for attracting foreign direct investments are also very scarce due to poor business environment. For a land-locked country with no direct access to global economic centers it is very important to ensure adequate wellbeing in the region and streamlined economic and political compatibility with the neighboring countries.

3.1.2. Impact of ACF Loan on Economic Condition of KR

The approval of the ACF loan to fund upgrading of the farming machinery fleet will facilitate investments into production fixed assets. Considering the significant share of agri production in the GDP structure and its underfunded condition, modernization of the farming machinery fleet will promote increasing of productivity in the sector. In addition, the increased number of farming machinery units will generate demand for more maintenance services and thereby will contribute to economic diversification. Both these drivers will have a positive impact on the GDP growth potential. Improvement of the efficiency of the agri sector will contribute to strengthening of food security nationwide, and reduced demand for imported food will lead to lower foreign trade deficit.

The impact of the Loan on debt sustainability is estimated as negligible. The Loan will increase the external debt by 0.7%, which is less than 0.3% of the GDP for 2013. In spite of the high foreign debt/GDP ratio, the debt curve is subdued. The external debt service burden to budget revenue ratio is substantially below the threshold values (about 5% projected for the medium term, against 20%, respectively). The external debt to export receipts and money remittance fees levied from migrant labor account for 40% with a threshold value of 120%. In addition, writing off the bilateral debt to Russia will also significantly reduce the external debt service burden. When Kumtor restores its business performance, and given continued conservative external borrowing policies, the budget and debt positions may be rated as stable. The approval of the ACF Loan in the amount of US\$ 20 million (about 0.3% of the GDP) to be provided on the proposed extremely soft conditions, will not lead to any significant increase in the debt service burden of the country.

Furthermore, the proposed use of earnings from the Project for financing the above farming machinery leasing budget support fund will constitute another factor reducing the external borrowing requirements and consolidating the national debt sustainability.

3.1.3. Agricultural Sector

Kyrgyzstan is located on a predominantly mountainous territory. KR is a landlocked country. Only 7% of its territory is fit for agri production, and only half of the cultivable land can be used for farming without irrigation⁴. Kyrgyzstan possesses good competitive

³ Index of quality of public service <http://info.worldbank.org/governance/wgi/index.aspx#home>

⁴ Kyrgyzstan. Market Assessment – Secondary Data Analysis. April 2013. WFP

advantages in agri sector region-wide (good climate, abundant water resources, low cost of labor), which can be instrumental in development of the farming sector.

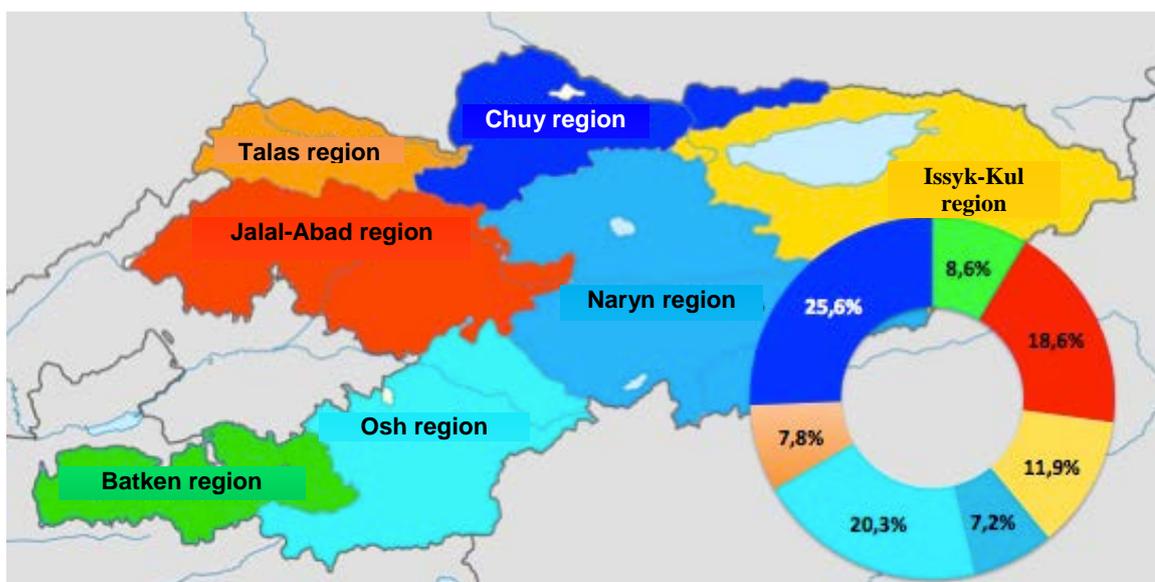
The agricultural sector in Kyrgyzstan is important not only in economic, but also in social terms, because close to 65% of the population live in rural communities. Social significance of the agri sector stems from the high poverty level and poor social protection of the population: even minor variations in prices for farming produce have a strong impact on the standards of living of the population, because Kyrgyz households spend 60% of their income on food.

The key products of the Kyrgyz farming sector are grain crops. According to FAO they account for 38% of the diet of the local population (measured in nutritive value), dairy products (except for butter) - 12%, sugar - 8% and potatoes - 8%. Annual requirement of the Kyrgyz population for grain crops is equal to about 2 million tons (with wheat accounting for over 65% of the total)⁵.

This requirement of the population is not met by local grain supplies; in 2012 reliance of KR on imported grain amounted to 43%⁶. In recent years this indicator has been growing (since 2005 it has risen from 14% to 43%). Kirgызstan's reliance on imports of meat products and sugar is 17% and 96%, respectively. Products of the plant-growing sub-sector remain in the country for domestic consumption; only potatoes (26.2%) and melon crops (18.8%) are exported.

The agri lands in the country occupy 10,658.2 thousand hectares, of which tillable ploughland accounts for 12% of the total farming land, and native grassland - 86%. The largest share of agricultural production in KR (in monetary terms) belongs to 3 regions: Chuy, Osh and Jalal-Abad.

Figure 3. Regional Structure of Agricultural Sector (in monetary terms)



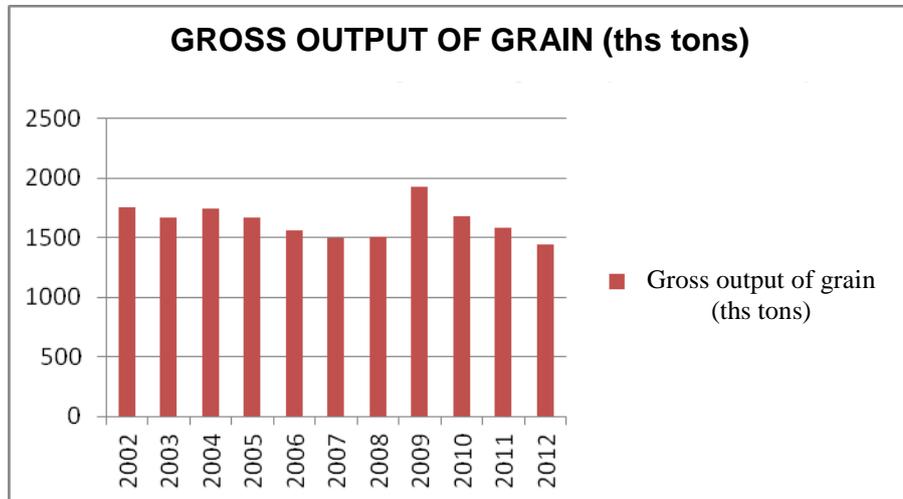
Source: Based on statistical data provided by the NSC of KR

⁵ FAO. Food Balance Sheets

⁶ FAO. Food Balance Sheets

Poor grain crops in 2012 led to a significant increase in prices for grain products (according to NSC of KR in 2011 the price was KGS10.933/kg, and in 2012 it rose to 14.392/kg), which adversely affected vulnerable groups of the population. The Minagri blames bad weather in 2012 for the drastic cut in grain production and obsolete machinery and equipment operated in the farming sector.

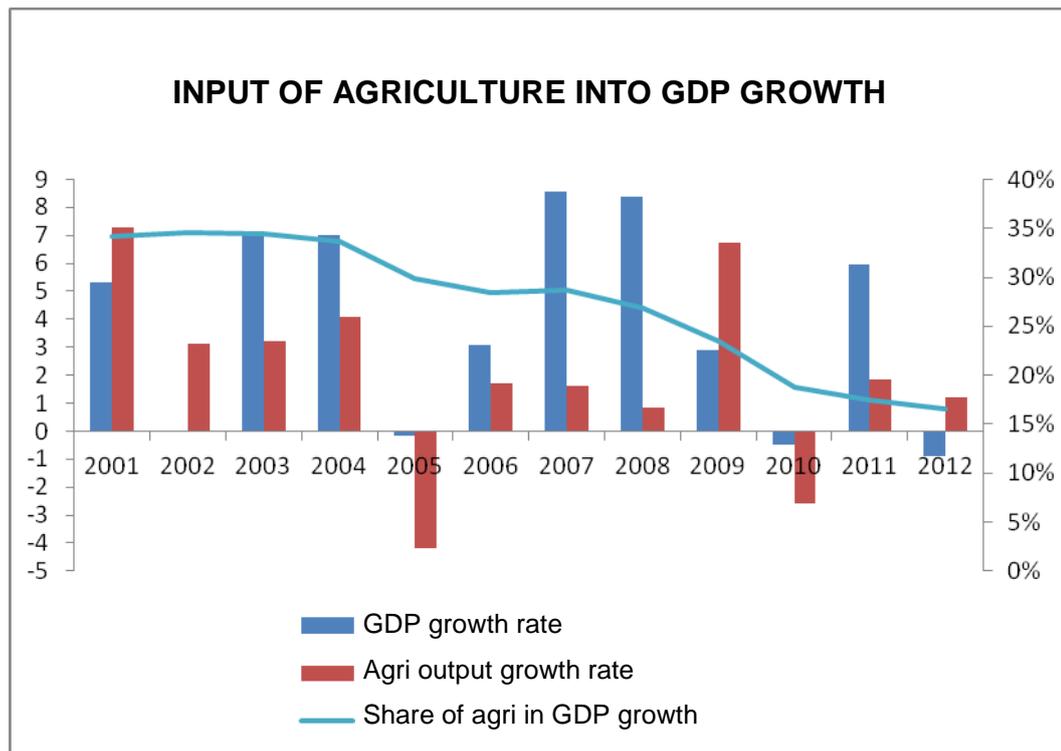
Figure 4. Gross Output of Grain in KR (over 10 years)



Source: Based on statistical data provided by the NSC of KR

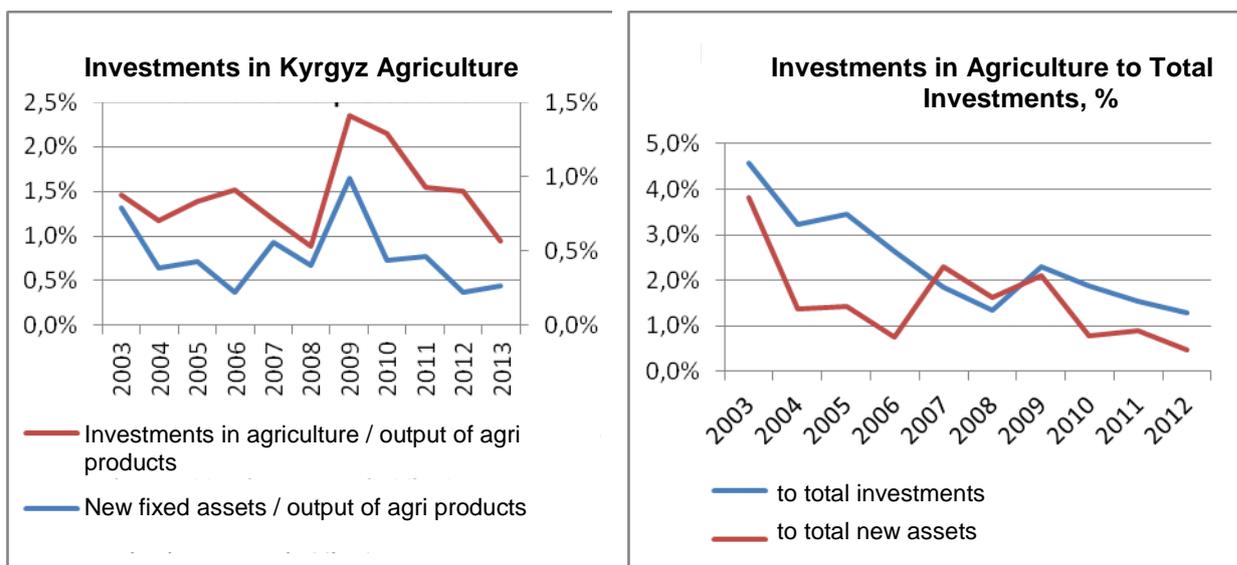
According to Minagri of KR investments into farming fixed assets are in a very poor condition. In spite of the high employment rate in the sector (close to 700,000 persons), its contribution to the GDP growth is constantly falling. In 2000-2012 the average growth rate of the agricultural sector was about 2%, whereas the GDP grew at a rate of around 4%. In the context of favorable climate such low growth rate is indicative of inadequate production efficiency.

Figure 5. Impact of Agricultural Sector of Kyrgyzstan on GDP Growth in 2001-2012



The low productive capacity in the sector is, obviously, due to poor efficiency, large-scale use of manual labor, obsolete machinery and equipment. Investments into fixed assets in the agri sector in 2012 were as low as 1.3% of the total amount of capital investments. Compare it with 2000 when this indicator was equal to 3.7%. In many respects it is due to the lack of financial support of agricultural production.

Figure 6. Investments in Agricultural Sector of Kyrgyzstan



The above trend to reduced investment activity in the agri sector in the long term will have a negative impact on its further development.

The agri producers operate machinery and equipment that have been in service for 18-25 years. High costs of repair and maintenance work are due to the actual absence of adequate infrastructure. For the Russian and Belorussian machinery operated in KR there is only one

authorized maintenance center "Avtomashradiator", which is located in Bishkek. For current maintenance of the machinery the spare parts are delivered from Bishkek to where the machines are operated, and the maintenance services are also often provided by professionals from Bishkek. In case major overhaul is needed, the machinery is dispatched to the central maintenance facility in Bishkek. Establishment of a network of maintenance stations in the region would enable a significant reduction of operation and maintenance costs incurred by the agricultural producers, higher maintenance quality and extension of service life.

In view of the almost complete wear-out (about 90%) of the machinery operated by agri producers, the proposed farming machinery supplies project will practically boil down to building a national farming machinery base "from scratch". On 1 September 2011 Aiyl Bank in cooperation with the World Bank launched an agribusiness support program, which provided an opportunity for farmers, purchasing new machinery under any WB lending program, to receive a financial grant in the amount of 25% of the equipment price, but not exceeding US\$ 25,000 per farm. This amount is paid as compensation by the World Bank. Only farmers who could raise additional loan funds for financing their procurements were eligible for such benefits. Under this program along with John Deere harvesters Aiyl Bank leased out a class 5 Acros series grain harvester, manufactured by Rostselmash, and delivered to Kyrgyzstan for the first time.

In May 2012 USAID allocated US\$ 5 million for an open and formally equal-opportunity bid for the supply of a wide range of farming machinery and equipment to rural communities of Kyrgyzstan. Four Rostselmash grain harvesters were supplied on a successful bid in the "harvesters" lot. The remaining lots (grain machinery) were won by producers from Turkey and EU.

In May 2011 under a contract with People's Republic of China Aiyl Bank received an interest-free loan in the amount of US\$ 15 million, purchased 100 tractors made in China and subsequently leased them out to farmers. In fact the Chinese tractors YTO 90 hp were handed over to farmers for US\$ 16,000 at 6% per annum in the national currency (KGS).

In 2012-2013 the Government of Kyrgyzstan leased out about 300 MTZ tractors through Aiyl Bank.

Aiyl Bank estimates the total farming machinery and equipment supplies program to amount in monetary terms to US\$ 500 million⁷. Kyrgyzstan has recently adopted National Sustainable Development Strategy for 2013-2017, which, inter alia, addresses development of agricultural and industrial complex of the country.

In view of the limited resources and lending markets for farms, the only possible arrangement to enable procurement of new farming machinery fleet lies in developing leasing schemes. The average interest rate in borrowing from banks (including foreign banks) in KR for leasing transactions is equal to 16%-plus per annum (in US\$) payable by the lessee. Most farmers are unable to take advantage of commercial machinery leasing schemes and, at the same time, retain reasonable profit margin.

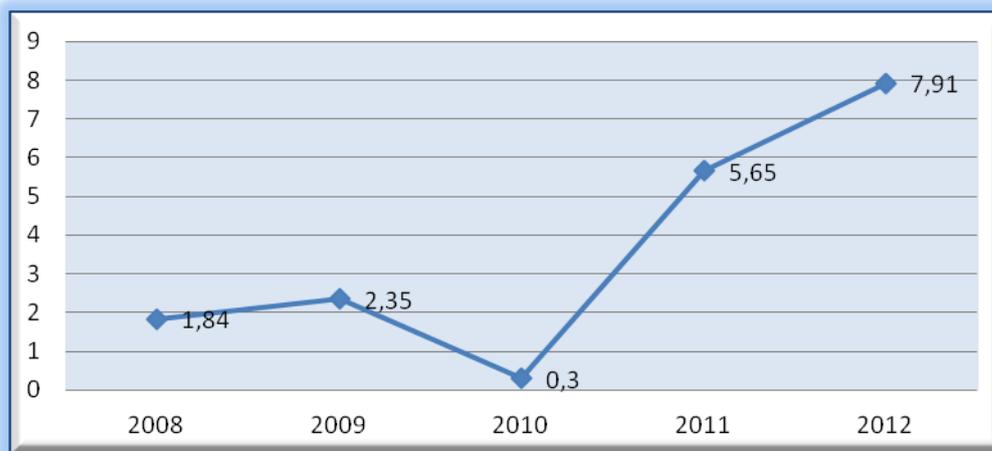
International development banks operating in KR, prior to 2011 provided long-term loans to fund purchases of farming machinery in the form of grants or with a grant-element of 50%-plus. The current medium-term strategies of the World Bank, Asian Development Bank, European Bank for Reconstruction and Development make no provision for investments into modernization of the farming machinery fleet up to 2015.

According to the NSC of KR, in 2012 eight firms carried out leasing operations in the country. They ran 338 leases, and most of the property leased over 4 years, were farming machines. The number of leasing transactions performed in 2012 increased 2.2 times as

⁷ http://agroinfo.com/wp-content/uploads/2013/05/Appendix_On_the_demand.pdf

compared with the previous period. The total value of financial leasing agreements was US\$ 7.91 million. Almost all of the leasing transactions (99.8%) related to agricultural machinery and equipment.

Figure 7. Financial Leasing Transactions (US\$ million)



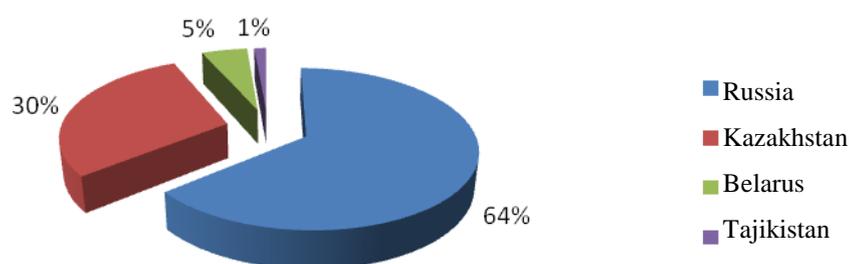
According to the Ministry of Agriculture and Land Reclamation of KR, farms are mostly interested in machinery made in ACF member countries (farmers have experience in operating such machines and maintenance skills). In view of the above the Ministry of Agriculture and Land Reclamation of KR requested the Manager to consider extending a loan for funding farming machinery supplies (primarily from Russia, Kazakhstan and Belarus) for subsequent leasing out to private farmers and agricultural enterprises. In June 2013 the above preliminary application was approved by the Fund Council, and in November 2013 the Ministry of Finance of KR submitted to the Manager the final version of the Application for funding the proposed project.

3.1.4. Foreign Trade of KR with ACF Member Countries

In 2012 total foreign trade of Kyrgyzstan accounted for US\$ 7 billion 50.1 million, an increase of US\$ 851.4 as compared with 2011 (13.7% growth). Imports to Kyrgyzstan in the accounting period of 2012 reached US\$ 5 billion 373.5 million (76.2% of the total trade volume) and, as compared with 2011, increased in current prices by US\$ 1 billion 144.9 million (27.1% growth). Exports from Kyrgyzstan in 2012 amounted to US\$ 1 billion 676.5 million. Total exports, compared with 2011, declined by US\$ 293.6 million (14.9% reduction). The above decline is primarily due to the drop in exports of precious metals.

According to the State Customs Service of the Government of KR ACF member countries account for almost 45% in the Ex-Im structure and the balance (55%) - the rest of the world. Trade turnover with ACF member countries is given in **Figure 8**.

**Trade Turnover with ACF
Member Countries in 2012
(US\$ million)**



Exports of agricultural products compared 2006 vs. 2012 are shown in **Table 1**.

Table 1. Exports of Farming Products to ACF Member Countries⁸.

Destination	Exports from Kyrgyzstan in 2006	Exports from Kyrgyzstan in 2011
	US\$,000	US\$,000
Russia	11,023.071	20,513.076
Kazakhstan	2,100.33	59,979.647
Tajikistan	14.612	188.72
Belarus	0	368,346

Investments from Russia and Kazakhstan are an important component in the total investments in KR. Trends in foreign investments in KR from ACF member countries in 2008-2012 are shown in **Table 2**.

Table 2. Foreign Investments in KR from ACF member countries

Country	Armenia	Belarus	Kazakhstan	Russia	Tajikistan
Year	US\$,000				
2008	47.4	6,931	767,878.1	807,404.1	18,607.3
2009	115.4	4,504.4	425,007.4	1,039,935	7,569.6
2010	244.3	5,431.4	227,572.8	473,438.9	6,052.1
2011	19.2	2,523.7	318,069.1	394,716.6	31,971
2012	1.1	3,294.8	331,912.2	467,859.4	27,673.4

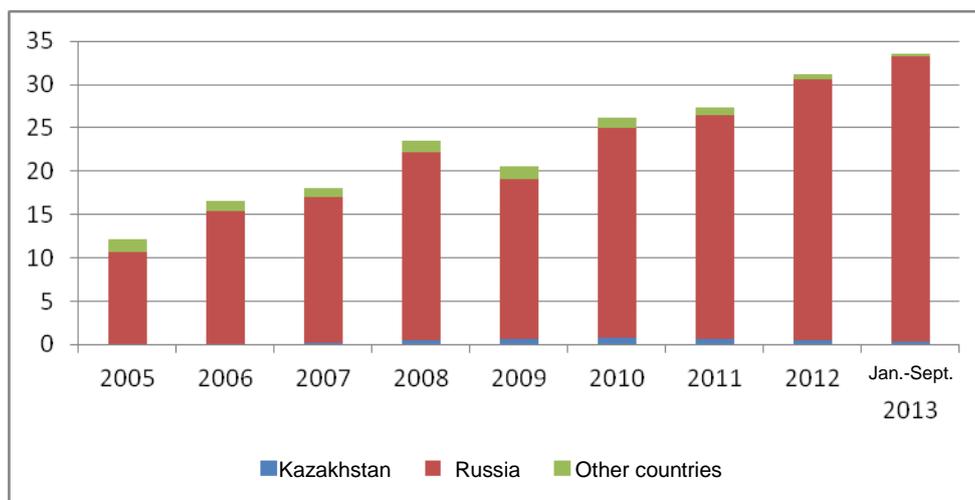
⁸ Source: Ministry of Agriculture and Land Reclamation of KR

Figure 9. Investments in from Russia and Kazakhstan over 5 years (US\$ million)



It should be indicated that a substantial portion of foreign trade of KR with ACF member countries belongs to migrant labor and their cash remittances. According to the National Bank of KR the above countries provide over 99% of incoming cash flow through the system of money remittances, which account for about 1/3 of the national GDP.

Figure 10. Cash Remittances to Kyrgyzstan (% of GDP)



3.2. Project Description

3.2.1. Objectives of Project:

- Extended service life and efficiency of farming machinery by means of developing the existing and building new maintenance infrastructure facilities;
- Improvement of debt sustainability of Kyrgyz Republic by building up project profits in the farming machinery leasing budget support fund and by reducing the need for raising funds through external borrowing arrangements for purchasing such machinery;
- Development of small and medium-sized farming businesses;

- Integration through increased farming products exports to markets of the Eurasian Economic Community and importing machinery from ACF member countries to the Kyrgyz Republic;
- Reduction of poverty level of rural population;

3.2.2. Project Current Status and Funding Requirements

The implementation of the Project requires allocation of ACF resources in the form of an investment loan in the amount of US\$ 20 million.

The above funds should be transferred to the Project Company (Aiyl Bank). The Project Company will use the funds (US\$ 18 million) for procurement of about 4,200 units of farming machinery (with preferences extended to machines produced in ACF member countries), which will be subsequently leased out to agri producers of Kyrgyz Republic during the term of the Project. To ensure uninterrupted operation of the machinery and reduction of overhead costs incurred by agri producers, some of the Loan funds in an amount up to US\$ 2 million will be used by the Project Company for sub-lending to fund construction of farming machinery maintenance infrastructure facilities, including maintenance stations, procurement of the necessary equipment and spare parts storage.

The Minagri of KR has provided information that the total requirement of Kyrgyz Republic is currently equal to 154,002 units of agricultural machinery (Table 3).

Table 3. Farming Machinery Units Required for KR

Description	Standard requirement	Available as of 01/01/2013	In operation for over 20 years	Shortage against requirement (+;-)
	pcs	pcs	%	pcs
Tractors	27,953	20,369	87	-7,584
Grain harvesters	4,830	2,359	80	-2,471
Corn harvesters	510	99	100	-411
Fodder harvesters	1,463	454	100	-1,009
Seeders	4,123	2,530	96	-1,593
Tooth harrows	78,274	1,770	100	-76,504
Cultivators	7,739	2,272	100	-5 467
Tractor ploughs	5,479	7,239	78	-
Disc harrows	2,124	191	100	-1,933
Tractor trailers	16,773	8,736	98	-8,037
Tractor-mounted mowers	2,294	1,882	100	-412
Tractor rakes	1,293	617	100	-676
Pickup balers	1,147	1,054	100	-96
Total	154,002	49,572	---	-106,190

To comply with standard requirement 106,190 machinery units are additionally needed. Net of the obsolete machines that have run out their service life (over 20 years in operation), the total requirement of the Kyrgyz Republic is 150,770 units (98% of the regulatory availability).

Under the farming machinery supply programs, that have been running over the last 15 years in Kyrgyzstan, the average annual supplies provided only 367 units, which could not even replace the machines that were completely worn out and unfit for use.

According to the Minagri of KR, in the course of the project implementation machinery will be purchased strictly based on acute need for new or replacement of obsolete

units. Those are the most expensive units of farming machinery, i.e. tractors with attached gear and grain harvesters. The estimates were made on the basis of a unit price of US\$ 18,000. Acquisition of up to 4,200 units of the above machinery will enable meeting 3 - 5% of the country's requirement in such machinery. Table 4 shows a tentative inventory of machines contemplated for procurement.

Table 4. Farming Machinery Units for Procurement under Project

Description	Quantity, pcs
Light tractors	500
Medium tractors	600
Harvesters	100
Seeders, harrows, mowers, cultivators	3,000
Total:	4,200

As of 25 November 2013 for the benefit of the Project:

1) The Program of the Kyrgyz Government approved by the resolution of Zhogorku Kenesh of the Kyrgyz Republic of 5 October, 2012 # 2264-V, addresses the development of leasing arrangements for agricultural machinery as one of its top priorities;

2) The Project Company designated to carry out implementation activities (Aiyl Bank) is experienced in running similar projects in cooperation with other international financial institutions. In 2011-2012 the Project Company in cooperation with the World Bank as part of the project "Agribusiness and Marketing - Leasing" provided to agri producers 39 units of farming machinery. The project was completed in March 2013, and the World Bank's preliminary evaluation of its implementation was "successful". Loans extended by the National Development Bank of China (NDBC) were used by the Project Company in 2012 to procure US\$ 1.5 million worth of farming machinery for subsequent leasing out;

3) The Manager has prepared and submitted to the Ministry of Finance of KR a draft ACF Investment Loan Agreement;

4) The Parties reviewed the proposed procurement procedures, and are currently working on engaging the World Bank to provide consulting services on its guidelines; the Project Business Plan has also been completed, and the final version of the Investment Application executed in compliance with ACF requirements has been received.

3.2.3. Funding Scheme, Financial Conditions and Implementation Mechanism

The funding scheme of the Project conforms to the Regulation on the Use of ACF Resources for Providing Investment Loans⁹. The project will be implemented on the basis of the following plan: The ACF Investment Loan is provided to KR; KR extends a budget loan to the Project Company; the Project Company uses the budget loan funds for procurement of farming machinery for subsequent leasing out (80%) and for sub-lending to fund development of farming machinery maintenance infrastructure facilities (20%).

The expense items for which the Investment Loan funds should be allocated (and, accordingly, those of the budget loan to Aiyl Bank) are listed in Table 5.

⁹ Approved by Minutes of the Fund Council meeting # 3 of 25 February 2010

Table 5. Project Cost Estimates

Expense Category	Amount of expenses, US\$ million	Percent of total, %
Investment Loan:		
Procurement of farming machinery for subsequent leasing	18	72
Sub-lending for development of farming machinery maintenance infrastructure facilities	2	8
Co-financing:		
Co-financing by Project Company of procurement of farming machinery for subsequent leasing and sub-lending for development of farming machinery maintenance infrastructure facilities	5	20 (for each farming machinery procurement or sub-lending contract)
Total:	25	100

1) ACF Investment Loan

Financial Conditions:

- Total Cost of Project: US\$ 25 million;
- Requested amount of ACF Loan: US\$ 20 million;
- Term of Loan, including grace period: up to 20 years;
- Fixed interest rate: 1% per annum;
- Currency of Loan: US\$;
- Risk premium: n/a;
- Interest Margin: n/a;
- Front-end fee: 0.5% of total initial amount of Investment Loan
- Commitment fee: 0.5% per annum of undisbursed amount of Investment Loan;
- Loan availability period: 2 years;
- Loan format: Sovereign Investment Loan;
- Co-financing by Project Company: US\$ 5 million;
- Grace period for principal repayment: up to 8 years (the Preliminary Application Appraisal approved 5 years, but, based on the assumption that as a result of reduction of the grace period from 8 to 5 years the grant-element will drop below the threshold of 35% and 400 machines of the total number of units will not be supplied, and the budget fund will lose 10% - from US\$10 million down to US\$ 9 million -, the Manager recommended to accept the proposal of KR to retain the 8 year grace period).

In the context of rapid growth of external borrowing and debt exposure to external impacts, a zero limit for non-preferential lending was agreed upon under the current IMF program for the total portfolio of external sovereign and government-guaranteed borrowings. KR has assumed the commitment to refrain from borrowing and issuance of guarantees for loans that may reduce the average grant-element for the above portfolio below 35%. The conditions tendered by the Manager, are consistent with the IMF Guidelines (the grant-

element is calculated on the basis of the IMF technique and is equal to 38%¹⁰). The 20 years term of the Investment Loan was suggested for the same reason.

The funds of the ACF Loan are expected to be drawn down within 2 years beginning from 2014 and in accordance with procedures of the World Bank Disbursement Guidelines.¹¹

The ACF Loan is provided to the Kyrgyz Republic for subsequent re-crediting to the Project Company. Debt repayment to ACF will be sovereign liability of the Kyrgyz Republic. The Government of KR will allocate the funds borrowed from ACF in its national budget as a source of funding of the budget deficit and as an item of expenditure for financing the Project, and it will also post into the national budget of KR expenditures allocated for repayment and debt service of the ACF Loan.

For the purposes of the Investment Loan the MF of KR opens and maintains the Special Account; receipts and disbursement of funds from the above account must comply with the above WB procedures. These procedures should ensure more transparent disbursement of funds, engagement of experienced experts of the World Bank for monitoring disbursement operations, as well as reduction of corruption and fiduciary risks.

The Loan will be disbursed:

- by direct transfer of funds to contract suppliers in amounts not exceeding US\$ 500,000;
- by advance transfer to the Special Account for subsequent disbursement to the Final Borrower for payments under contracts in amounts not exceeding US\$ 500,000 and sub-lending for development of farming machinery maintenance infrastructure facilities.

The maximum amount, which may be kept on the Special Account at any point in time, is equal to US\$ 5 million. The first replenishment of the Special Account is carried out by the Manager after entry into force of the Investment Loan Agreement (Agreement). Subsequent Special Account replenishments are undertaken by the Manager on the basis of Disbursement Requests with attached documents to certify authorized use of the received Investment Loan; the size of the incoming funds is determined by duly certified eligible expense amounts.

The Ministry of Agriculture and Land Reclamation of the Kyrgyz Republic will be responsible for managing Project procurement operations as required by the Agreement and Project Implementation Guidelines¹², including obtaining the necessary approvals from the Manager and progress reporting. The Ministry will also be responsible for ensuring endorsement of the Project Procurement Plan and the Manager's approval.

The Ministry of Finance of KR will be responsible for opening and maintaining the necessary Project accounts, for coordination of Project implementation activities on a daily basis in respect of the Investment Loan funds and the leasing budget support fund, including financial management, accounting and records, authorized spending of loan funds, audit, monitoring and Project performance evaluation, compilation and submission to the Manager of progress reports, disbursement of the Investment Loan and budget loan funds to the Project Company, ensuring compliance of the Project Company with the Loan Agreement terms and

¹⁰ <http://www.imf.org/external/np/pdr/conc/calculator/>

¹¹ World Bank Disbursement Guidelines for Projects, dated May 1, 2006, Disbursement Handbook for World Bank Clients, May 2006

¹² The Guidelines must be approved by the Borrower following concurrence by the Manager and should contain criteria for selection of lessees, sub-borrowers and sub-projects, regulations for coordination between authorized agencies of Borrower and Final Borrower in examination and approval of the applications for the Budget Loan, as well as format of the applications, filing procedure and forms of documents and progress reports of the Project Company.

conditions, completeness and timeliness of Loan Payments, creation of the budget fund and supervision of disbursement of the loan.

Both ministries will be required to ensure approval of the Project Implementation Guidelines and signing of the Investment Loan Agreement¹³ with the Project Company.

The Manager recommends adoption of the following performance indicators for Project monitoring and evaluation for regular progress reports submitted to the Manager by the Borrower:

- Upgrading of fixed assets in agricultural production;
- Expansion of farming machinery maintenance infrastructure;
- Generation of additional budget revenue in the Kyrgyz Republic to enable continued funding of farming machinery supplies with its own financial resources; establishing a budget leasing support fund and improved debt sustainability of the Kyrgyz Republic;
- Increase in production and exports of agricultural products and strengthening of food security;
- Consolidation of the balance of trade by increasing exports of agricultural products;
- Increased farming productivity in ploughing, growing and harvesting activities;
- Increased mutual investments and trading in member-countries of the Anti-Crisis Fund of the Eurasian Economic Community;
- Procurement, disbursement, account records and progress reporting, as well as Project management in accordance with applicable policies and procedures;
- Reduction of poverty of rural population.

According to IDB practices, upon expiry of the loan availability period, 6-12 months are allocated for disbursement monitoring and supervision. In view of the above within 6 months of the termination of the Investment Loan Availability Period the Borrower will be required to prepare and submit to the Manager a regular progress report for the latest period of Project implementation, a final Project audit report, a final Project Implementation Report, a report on the Borrower's performance under its obligations, a plan of action for ensuring sustainability of the Project results. The Manager will submit the above documents to the Fund Council for review.

The funds transferred towards repayment of the principal and interest by the Final Borrower under the Budget Loan Agreement, will be forwarded to the newly established budget fund, which will be made available to the Final Borrower for procurement of farming machinery that will be leased out to farmers without external borrowing arrangements.

2) Budget Loan of Kyrgyz Republic to Aiyl Bank

The Investment Loan funds are provided to Aiyl Bank in the form of a budget loan (according to Kyrgyz legislation). Its conditions are as follows:

- Interest Rate 5 % per annum;
- Budget loan is disbursed in tranches, size and schedule to be defined by the Budget Loan Agreement;
- Repayment schedule for each tranche: 6-7 years;
- Grace period for principal repayment: 12 months for each tranche;
- Debt ceiling of Project Company to KR within the term of the Investment Loan must not exceed US\$ 20 million;
- Co-financing by Project Company: at least 20% per each sub-loan and/or farming machinery procurement contract;
- Interest rate of Project Company for lessees and sub-borrowers must not exceed 9% per annum.

¹³ Loan extended by the Kyrgyz Republic to Aiyl Bank.

Aiyl Bank's operating expenses of 4% are comparatively low by local standards (operating expenses of OJSC "Unicreditbank" are on the level of 7.2%, and those of OJSC "KhalykKyrgyzstan" - 12.7%).

The Project Company will use the Investment Loan for the following purposes:

- Funds allocated for procurement of farming machinery, will be used in accordance with the Project Procurement Plan and the procurement procedures defined in the Investment Loan Agreement. Upon signing of the contract the Project Company transfers funds to the suppliers contracted for procurement of machinery. In the process preferences will be considered for suppliers from ACF member countries. Machinery supply contracts will contain provisions with commitments to provide maintenance services. Upon receipt of the purchased machinery the Project Company will hand it over to farms under a lease contract.

- Funds allocated for the development of farming machinery maintenance infrastructure, will be offered as loans for construction of such facilities.

The Project Company undertakes to ensure special financial management of the Budget Loan funds, including accounting and records, safekeeping of accounting documents, audit and progress reporting.

The Project Company must comply with the Manager's Environmental Policy, including no leasing of machinery and equipment procured with the Investment Loan to be used for activities incompatible with the Manager's Environmental Policy, and making provision in relevant agreements for specific commitments to be assumed by lessees and sub-borrowers to comply with the environmental legislation of the Kyrgyz Republic.

With regard to procurement procedures, the Manager offers the Project Company, which will be responsible for these operations, the following recommendations: All procurement operations funded by the Investment Loan must be carried out in compliance with the ACF Procurement Policy and the IBRD Procurement Guidelines, insofar as they are not at variance with the ACF Procurement Policy. For contracts funded by the Investment Loan, if the price, including taxes, does not exceed US\$ 500,000, procedures of business practices of Aiyl Bank will be applied, if they are consistent with provisions of Section III. "Other Methods of Procurement" of the IBRD Procurement Guidelines. For contracts funded by the Investment Loan, if their price, including taxes, exceeds US\$ 500,000, the applicable procurement method consists in organizing International Competitive Bidding to be conducted by Aiyl Bank in accordance with Section II "International Competitive Bidding" of the IBRD Procurement Guidelines. The World Bank successfully implemented a similar program on farming machinery in KR; the Project Company has experience of cooperation with the World Bank and of application of its policies, which will facilitate reduction of corruption and fiduciary risks through unbiased and impartial selection of applications, and by compiling specs for procurement in way to enable the most wide-ranging competition and, at the same time, to ensure compliance of proposed work, materials and characteristics of goods and services with the required quality standards.

3.3. Project Compliance with ACF Mission

The Project promotes improved economic resilience of Kyrgyz Republic and aims to achieve:

- Increase of investments into agricultural sector of KR for the purpose of upgrading of production facilities;
- Improvement of trade balance through increase in exports of farming products;
- Reduction of poverty level of rural population;

- Promotion of further integration of ACF member states by increased exports of farming products from KR to markets of ACF member countries and supplies of farming machinery to KR from ACF member states.

In accordance with the Regulation on ACF Investment Loans, the Project is classified as 'National', since:

- The Borrower under the Project is the Government of the Kyrgyz Republic;
- It is implemented by the Project Company, incorporated as a legal entity in accordance with the Borrower's national legislation;
- It is implemented in a member state of the Fund.

The Project is designed as integrating, because its implementation will lead to the following integration results:

- Increasing inter-state investments and trade turnover between Kyrgyzstan, Russian federation, Republic of Kazakhstan and Republic of Belarus by promoting imports of machinery, equipment and maintenance services to KR;
- Increasing trade turnover between EurAsEC countries by building up exports of Kyrgyz agricultural products to 15% by the end of the term of the Investment Loan.

Poor business climate in Kyrgyzstan constitutes a strong deterrent for foreign capital inflow, as well as quality of government institutions, level of corruption, which, in turn, limit the opportunities for attracting market-driven investments.

The Project cannot be funded by market sources of finance on commercial conditions. All leasing programs in the agricultural sector in KR are currently being implemented on the basis of grants and highly preferential borrowing arrangements. E.g., in 2011-2012 the average interest rate of loans of the World Bank was 1.5% per annum. It is also noteworthy that the interest rate on the sovereign loan in the amount of US\$ 100 million extended by Turkey to Kyrgyzstan in January 2013, including for funding farming machinery supplies with a view to subsequent leasing, is 0.1% per annum.

The interest rate payable by the final borrower on sovereign loans and soft loans granted by IFIs, is 6-9% per annum in national currency. International financial institutions operating on conditions similar to market-driven (e.g. EBRD), do not fund programs for leasing farming machinery in the country. It should be indicated that the average interest rate in banks lending in foreign currencies (including foreign banks) in KR is at least 13% per annum (in US\$). At the rate of 10% in national currency the average return on investment in purchasing ploughing and harvesting machinery in Kyrgyzstan is 5 years. At the rate of 10% in US\$ (around 22% in national currency) the ROI almost triples (up to 13 years). This parameter exceeds the maximum service life for farming machinery and makes leasing projects economically unacceptable.

A minimum affordable interest rate on EDB loans (not in its capacity of ACF Resources Manager, but rather on its own funds) in US\$ with disbursement period up to 3 years and maturity up to 10 years at an average risk, is 7.71% per annum (net of fees and project preparation cost recovery). EDB did not specify any risk limit for Aiyl Bank because of the bank's low capital adequacy ratio and capital base. Extension of a sovereign loan by EDB to the Kyrgyz Republic is also not feasible on the above conditions, because the current IMF program in KR imposes a limit on non-preferential lending (sovereign loans are allowed but with a grant-element at least 35%). Thus EDB's funds to be used for leasing programs in Kyrgyzstan may be provided only given availability of bank guarantees or risk insurance by reputable agencies, and it makes the loan for Aiyl Bank at least 3% more expensive. In that

case the final interest rate in US\$ on EDB's loans for the lessee will be significantly higher than 10% per annum.

It should also be indicated that due to low profitability of the vegetable growing and grain crops subsectors, the Kyrgyz Government is forced to subsidize interest rates on agricultural loans. Thus borrowing of funds at an interest rate higher than 10% per annum payable by the final borrower in national currency will generate additional burden on the national budget.

3.4. Projected Economic Benefits

Economic benefits expected from the Project:

- Reduction of cost of agricultural production by 2% through cutting overheads of farming machinery maintenance by 10% nationwide;
- Additional supplies of farming machinery units to increase their number by 8.5% of that available as of 01/01/2013;
- Establishment of a farming machinery budget support fund of earnings from the Project in the amount of US\$ 1.120 million for the period up to 31.12.2016.

3.5. Government Support of Project

The above loan is a sovereign borrowing of KR, and Kyrgyzstan is the Borrower of this loan. The Project has been developed as part of the National Agriculture Development Strategy of KR.

In the Program of the Kyrgyz Government approved by the resolution of Zhogorku Kenesh of Kyrgyz Republic of 5 October, 2012 # 2264-V, development of leasing for agricultural machinery is presented as one of its top priorities.

3.6. Environmental Impact

The Project will have no negative impact on the environment, because brand-new certified farming machines would be supplied. Steps will be taken to ensure compliance with occupational safety regulations and requirements for maintenance of operational condition of the farming machinery.

Environmental considerations:

- Reduction of fuel and lube materials consumption by 10-15% and 5% less carbon dioxide emissions;
- Preservation of humus layer and structure of soil.

Implementation of the Project will be carried out in strict compliance with the Environmental and Social Safeguards Policy of EDB, which classifies the Project as category "FI", i.e. a project requiring long-term and/or shared funding of financial institutions for lending, leasing or other forms of financing of sub-borrowers. Moreover, the requirements of the above Policy will apply to sub-borrowers whose projects may be assigned category "B", which characterizes such projects as having potentially hazardous local environmental and social implications, which can be eliminated and/or prevented.

3.7. Project Risk Assessment

Risk group	Description	Assessment of risk level	Impact on Project performance	Risk reduction measures	Risk assessment following reduction measures
Operating risks	Profits from leasing may not reach the target level and will not cover the overhead costs	Medium	High	Continuous monitoring of performance of Project participants in compliance with the procedures of the Manager and IBRD.	Low
Legal risks	Risks related to inappropriate interpretation and, as a consequence, non-performance (delayed performance) under the Investment Loan Agreement and related documents, other than legal provisions of KR.	High	High	Signing by the Manager of the Investment Loan Agreement directly with KR and its ratification in due process, which will enhance its status as an international agreement and will thus ensure its precedence over national legislation of KR; Introduction into the Agreement of penalties, which may be applied in case of breach by the Borrower of any provision thereof.	Medium
Regulatory risks	Risks of possible collision between regulatory authorities; or risks of changes in regulatory environment; or risks of changes in economic and political situation in Kyrgyzstan.	Medium	Medium	Monitoring of financial condition of the Project Company, political situation, meetings and discussions with the Borrower in the course of Project implementation.	Low
Financial risks	Risks of the Borrower's insolvency	Low-Medium	Medium	This is a sovereign loan, therefore by definition is characterized as 'low-risk'. The key factor of reduction of this risk lies in the provision of cross-default conditions in the draft Agreement. Similar conditions are imposed on KR by other leading IDBs.	Low
Corruption and fiduciary risks	Corruption Perception Index in Kyrgyzstan according to the rating of Transparency International is deteriorating: in 2012 Kyrgyz Republic was rated 154th of 183 countries; compare with 150th in 2007. In the process of funding the Project potentially various corruption and fiduciary risks may arise in connection with alleged inappropriate use of funds.	High	High	Application of IBRD procurement and disbursement policies and procedures, which require financial penalties for violations thereof. For purposes of Project performance monitoring, provision is made for services of IBRD experts. In addition, if necessary special compliance review procedures of the Manager will be applied.	Medium

Appendix 1. Investment Loan Repayment Schedule

Principal Repayment Dates	Principal Amounts for Repayment
30 March, 2022	US\$ 833,333.00
30 September, 2022	US\$ 833,333.00
30 March, 2023	US\$ 833,333.00
30 September, 2023	US\$ 833,333.00
30 March, 2024	US\$ 833,333.00
30 September, 2024	US\$ 833,333.00
30 March, 2025	US\$ 833,333.00
30 September, 2025	US\$ 833,333.00
30 March, 2026	US\$ 833,333.00
30 September, 2026	US\$ 833,333.00
30 March, 2027	US\$ 833,333.00
30 September, 2027	US\$ 833,333.00
30 March, 2028	US\$ 833,333.00
30 September, 2028	US\$ 833,333.00
30 March, 2029	US\$ 833,333.00
30 September, 2029	US\$ 833,333.00
30 March, 2030	US\$ 833,333.00
30 September, 2030	US\$ 833,333.00
30 March, 2031	US\$ 833,333.00
30 September, 2031	US\$ 833,333.00
30 March, 2032	US\$ 833,333.00
30 September, 2032	US\$ 833,333.00
30 March, 2033	US\$ 833,333.00
30 September, 2033	US\$ 833,333.00

10 год		11 год		12 год		13 год		14 год		15 год		16 год		17 год		18 год		19 год		20 год	
1 полгод	2 полгод	1 полгод	2 полгод	1 полгод	2 полгод	1 полгод	2 полгод	1 полгод	2 полгод	1 полгод	2 полгод	1 полгод	2 полгод	1 полгод	2 полгод	1 полгод	2 полгод	1 полгод	2 полгод	1 полгод	2 полгод
18 333 333	17 500 000	16 666 667	15 833 333	15 000 000	14 166 667	13 333 333	12 500 000	11 666 667	10 833 333	10 000 000	9 166 667	8 333 333	7 500 000	6 666 667	5 833 333	5 000 000	4 166 667	3 333 333	2 500 000	1 666 667	833 333
833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333	833 333
17 500 000	16 666 667	15 833 333	15 000 000	14 166 667	13 333 333	12 500 000	11 666 667	10 833 333	10 000 000	9 166 667	8 333 333	7 500 000	6 666 667	5 833 333	5 000 000	4 166 667	3 333 333	2 500 000	1 666 667	833 333	0
2 139 530	2 103 560	2 042 463	1 952 569	1 829 061	1 666 538	1 508 888	1 349 209	1 194 708	1 051 607												
2 139 530	2 103 560	2 042 463	1 952 569	1 829 061	1 666 538	1 508 888	1 349 209	1 194 708	1 051 607	0	0	0	0	0	0	0	0	0	0	0	0
18 333 333	17 500 000	16 666 666	15 833 333	15 000 000	14 166 666	13 333 333	12 500 000	11 666 666	10 833 333	10 000 000	8 205 317	6 521 503	5 051 643	3 792 139	2 736 881	1 876 880	1 199 785	689 344	329 791	105 160	52 579
252 000																					
275 050	275 050																				
300 250	300 250	300 250																			
327 755	327 755	327 755	327 755																		
357 780	357 780	357 780	357 780	357 780																	
340 556	340 556	340 556	340 556	340 556	340 556																
326 334	326 334	326 334	326 334	326 334	326 334	326 334															
305 389	305 389	305 389	305 389	305 389	305 389	305 389	305 389														
278 022	278 022	278 022	278 022	278 022	278 022	278 022	278 022	278 022													
209 728	209 728	209 728	209 728	209 728	209 728	209 728	209 728	209 728	209 728												
	216 030	216 030	216 030	216 030	216 030	216 030	216 030	216 030	216 030	216 030											
		213 953	213 953	213 953	213 953	213 953	213 953	213 953	213 953	213 953	213 953										
		210 356	210 356	210 356	210 356	210 356	210 356	210 356	210 356	210 356	210 356	210 356	210 356								
		204 246	204 246	204 246	204 246	204 246	204 246	204 246	204 246	204 246	204 246	204 246	204 246	204 246							
			195 257	195 257	195 257	195 257	195 257	195 257	195 257	195 257	195 257	195 257	195 257	195 257	195 257	195 257					
				182 906	182 906	182 906	182 906	182 906	182 906	182 906	182 906	182 906	182 906	182 906	182 906	182 906	182 906				
					166 654	166 654	166 654	166 654	166 654	166 654	166 654	166 654	166 654	166 654	166 654	166 654	166 654	166 654			
						150 889	150 889	150 889	150 889	150 889	150 889	150 889	150 889	150 889	150 889	150 889	150 889	150 889	150 889	150 889	150 889
							134 921	134 921	134 921	134 921	134 921	134 921	134 921	134 921	134 921	134 921	134 921	134 921	134 921	134 921	134 921
								119 471	119 471	119 471	119 471	119 471	119 471	119 471	119 471	119 471	119 471	119 471	119 471	119 471	119 471
								105 161	105 161	105 161	105 161	105 161	105 161	105 161	105 161	105 161	105 161	105 161	105 161	105 161	105 161
17 500 000	16 666 666	15 833 333	15 000 000	14 166 666	13 333 333	12 500 000	11 666 666	10 833 333	10 000 000	8 205 317	6 521 503	5 051 643	3 792 139	2 736 881	1 876 880	1 199 785	689 344	329 791	105 160	52 579	0
427 906	420 712	408 493	390 514	365 812	333 308	301 778	269 842	238 942	210 321	0	0	0	0	0	0	0	0	0	0	0	0
825 000	787 500	750 000	712 500	675 000	637 500	600 000	562 500	525 000	487 500	450 000	369 239	293 468	227 324	170 646	123 160	84 460	53 990	31 020	14 841	4 732	2 366
366 667	350 000	333 333	316 667	300 000	283 333	266 667	250 000	233 333	216 667	200 000	164 106	130 430	101 033	75 843	54 738	37 538	23 996	13 787	6 596	2 103	1 052
458 333	437 500	416 667	395 833	375 000	354 167	333 333	312 500	291 667	270 833	250 000	205 133	163 038	126 291	94 803	68 422	46 922	29 995	17 234	8 245	2 629	1 314
458 333	437 500	416 667	395 833	375 000	354 167	333 333	312 500	291 667	270 833	250 000	205 133	163 038	126 291	94 803	68 422	46 922	29 995	17 234	8 245	2 629	1 314
91 667	87 500	83 333	79 167	75 000	70 833	66 667	62 500	58 333	54 167	50 000	-41 027	32 608	25 258	18 961	13 684	9 384	5 999	3 447	1 649	526	263
-91 667	-87 500	-83 333	-79 167	-75 000	-70 833	-66 667	-62 500	-58 333	-54 167	-50 000	-41 027	-32 608	-25 258	-18 961	-13 684	-9 384	-5 999	-3 447	-1 649	-526	-263
383 333	366 667	350 000	333 333	316 667	300 000	283 333	266 667	250 000	233 333	216 667	200 000	164 106	130 430	101 033	75 843	54 738	37 538	23 996	13 787	6 596	2 103
18 000	17 250	16 500	15 750	15 000	14 250	13 500	12 750	12 000	11 250	10 500	9 750	9 000	7 385	5 869	4 546	3 413	2 463	1 689	1 080	620	297
8 000	7 667	7 333	7 000	6 667	6 333	6 000	5 667	5 333	5 000	4 667	4 333	4 000	3 282	2 609	2 021	1 517	1 095	751	480	276	132
10 000	9 583	9 167	8 750	8 333	7 917	7 500	7 083	6 667	6 250	5 833	5 417	5 000	4 103	3 261	2 526	1 896	1 368	938	600	345	165
468 333	447 083	425 833	404 583	383 333	362 083	340 833	319 583	298 333	277 083	255 833	210 550	168 038	130 394	98 064	70 948	48 818	31 363	18 172	8 845	2 974	1 479
(1 000 000)	(991 667)	(983 333)	(975 000)	(966 667)	(958 333)	(950 000)	(941 667)	(933 333)	(925 000)	(1 878 016)	(1 729 973)	(1 501 399)	(1 280 624)	(1 067 989)	(866 265)	(678 664)	(508 897)	(356 237)	(220 738)	(49 139)	(52 055)
22 722 500	22 190 834	21 646 250	21 088 750	20 518 334	19 935 000	19 338 750	18 729 584	18 107 500	17 472 500	16 824 584	15 202 401	13 682 978	12 349 616	11 199 386	10 229 461	9 434 144	8 804 299	8 326 765	7 988 700	7 776 806	7 730 640
(531 667)	(544 583)	(557 500)	(570 417)	(583 333)	(596 250)	(609 167)	(622 083)	(635 000)	(647 917)	(1 622 183)	(1 519 423)	(1 333 362)	(1 150 230)	(969 925)	(795 317)	(629 846)	(477 534)	(338 065)	(211 894)	(46 166)	(50 575)
22 190 834	21 646 250	21 088 750	20 518 334	19 935 000	19 338 750	18 729 584	18 107 500	17 472 500	16 824 584	15 202 401	13 682 978	12 349 616	11 199 386	10 229 461	9 434 144	8 804 299	8 326 765	7 988 700	7 776 806	7 730 640	7 680 065

Appendix 3. Calculation of Grant-Element

Grant-element calculated for grace period 8 years:

Total cost of Project	US\$, mln	20
ACF interest rate	%	1.00
Term of ACF Loan	years	20
Grace period	years	8
Front-end fee	%	0.50
Commitment fee	%	0.50
Discount	%	5.47%
ACF amount	US\$ mln	20
PV of payments	US\$ mln	12.35
Grant-element	%	38.23

Grant-element calculated for grace period 5 years:

Total cost of Project	US\$, mln	20
ACF interest rate	%	1.00
Term of ACF loan	years	20
Grace period	years	8
Front-end fee	%	0.50
Commitment fee	%	0.50
Discount	%	5.47%
ACF amount	US\$ mln	20
PV of payments	US\$ mln	12.35
Grant-element	%	34.96

Appendix 4. Matrix of Project Compliance with ACF Mission¹⁴

		Objectives				
		<i>Anti-crisis</i>	<i>Integration</i>	<i>Sustainable development</i>		
Criteria		<ul style="list-style-type: none"> • Project implementation in depression-stricken sector • Project implementation in sector exposed to crises. • Funding of project, whose failure may produce adverse social and economic impacts (threat to food security, energy security, environmental sustainability, sanitary conditions, agricultural production capacity) • Implementation of project of strategic importance in the context of increasing budget constraints • Restoration of sector in the aftermath of armed conflicts, mass riots, etc. • Creation of new jobs in the context of growing unemployment 	<ul style="list-style-type: none"> • Growth of mutual investments between EurAsEC countries • Growth of mutual trade between EurAsEC countries • Growth of commodity items in trading between EurAsEC countries • Growth of passenger and freight traffic flows in EurAsEC countries • Reduced overheads on traffic of passengers and goods between EurAsEC countries • Reduced transit time for passengers and goods between EurAsEC countries • Improved access (reduced costs and time) to key transport hubs (not necessarily located in EurAsEC) linking EurAsEC countries • Project implementation with a view to preparation of country to joining Customs Union 	<p><i>Social Stability:</i></p> <ul style="list-style-type: none"> • Creation of new jobs • Creation of new jobs for disadvantaged groups of population • Improvement of food security • Reduction of volatility of prices for food and basic services • Increase availability of basic services (education, health care, etc.) • Improve access to higher quality water resources • Increase access to electric power supply for communities in inaccessible and sparsely populated areas • Broaden coverage of inaccessible and sparsely populated areas with communications services • Provision of access to housing utility services (sewerage, gas supply, district heating) for communities in inaccessible and sparsely populated areas 	<p><i>Economic Sustainability:</i></p> <ul style="list-style-type: none"> • Growth of tax revenue (both directly from project implementation, and indirectly, from creating conditions for development of other sectors and businesses) • Promotion of export-driven sectors • Growth of share of value added, produced in country • Support of stability of operation of national power supply systems • Reduction of logistics overheads • Diversification of economy and/or exports 	<p><i>Environmental Sustainability:</i></p> <ul style="list-style-type: none"> • Project implementation is carried out under stringent environmental policies (IFI safeguards)

¹⁴ Investment project taken into consideration should match to one or more criterion from each column of the matrix. The project meets criteria which are highlighted in yellow.